

Report

Cabinet



Part 1

Date: 12 December 2018

Item No: 5

Subject **October Revenue Budget Monitor**

Purpose To highlight the current forecast position on the Council's revenue budget and the risks and opportunities that present themselves within the October position.

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Ward All

Summary Newport City Council's budget for 2018/19 is £274.6m, which supports delivery of over 800 activities which are focused on the overall mission - "Improving People's Lives". As at October 2018, the Council's revenue budget is forecasting an underspend of (£3,139k), which is 1.1% of the agreed budget. This position includes the use of all revenue budget contingencies and a significant one-off VAT rebate received in the year.

In common with all authorities across the UK, our financial position is challenging. In particular the services where it is difficult to control demand are facing very significant cost pressures, leading to an overall service area overspend of £5,147k (excluding schools). These are listed in the report in para. 1.1.

The forecast overspend in service areas has been balanced by underspending/ better income in non-service budget areas, use of the budget contingencies and a significant one-off income received in the current year. These, together, come to £8,286k and are listed in para 1.2.

In addition, the vast majority of schools are forecasting overspending on their approved, available funding, in total by £2,135k, inclusive of anticipated Welsh Government (WG) end of year grant income which is usually received. The draft settlement 2019/20 confirmed new grant income to contribute towards teacher's salaries in the current year and this will reduce the forecast overspend. This level of overspending will significantly reduce individual schools reserves to almost zero.

Looking forward the financial horizon continues to be difficult. Consequently we are recommending that Cabinet agree to commit £2,000k of the projected underspend to the Invest to Save reserve to help the council to manage future pressures.

In summary:

- service area overspending is at challenging levels and whilst the overall forecast position is showing an underspend, this is mainly due to one off income and continued underspending in non-service budgets which cannot be guaranteed into the future;

- undelivered savings will cause pressures for future years budget setting if these remain undelivered;
- the vast majority of schools will spend more than their available funding in 2018/19.

Appendix:

Appendix 1	Overall budget dashboard – October 2018
Appendix 2	Revenue summary monitor – October 2018
Appendix 3	Revenue summary monitor by activity – October 2018
Appendix 4	Schools funding and balances
Appendix 5	Planned movement in reserves

Proposal

Cabinet is asked to:

- Note the overall budget forecast position including use of all budget contingencies to balance forecast service overspending;
- Agree to instruct all areas of the Council to maintain robust financial management;
- Note the level of undelivered savings within each directorate and the risks associated with this;
- Agree the transfer of £2million into the 'Invest to Save reserve';
- Note the forecast movements in reserves;
- Note the projected and worsening balances of individual schools over the next year.

Action by

Cabinet Members / HoF / SLT / CMT confirm plans to:

- promote and ensure robust forecasting throughout all service areas;
- reduce service area over-spending;
- manage/ mitigate those projects that are unable to deliver required Medium Term Financial Projection (MTFP) savings.

Timetable

On going

This report was prepared after consultation with:

Strategic Directors
 Head of Finance
 Heads of Service
 Budget Holders
 Accountancy Staff

Signed

1. Overview

1.1 Significant service area overspending at £5,147k remains a key concern in the revenue budget forecasts. As shown in Appendix 3, most service areas / activities are spending close to budget but a small number are significantly overspending. The key issues reported to September Cabinet still feature within the 2018/19 forecast position and given the level of increasing demands that these areas continue to face this can only mean that overspending is likely to continue at challenging levels.

- (i) Children's out of area placements - £1,741k overspend
- (ii) Special education needs - £1,343k overspend
- (iii) Adults community care - £1,239k overspend
- (iv) Independent fostering agencies - £685k overspend

These areas contribute £5,008k of the £5,147k projected service area overspend.

1.2 These overspends have been balanced by underspending/ better income in non-service budget areas and use of the budget contingencies which come to (£8,286k). These are one-off in nature and cannot be guaranteed in the future. Therefore, service area overspending represents a significant risk in the future as without more investment in those key areas of overspending, reducing costs or providing permanent mitigation, significant overspending will continue. Key areas of underspending / one-off income include:

(i)	People Services risk contingency	(£2,200k)
(ii)	Council tax benefit rebates	(£1,670k)
(iii)	General contingency	(£1,473k)
(iv)	Other	(£1,135k)
(v)	One-off VAT rebate	(£773kk)
(vi)	Council tax surplus	(£650k)
(vii)	One-off additional rebate Gwent Crematorium	<u>(£385k)</u>
		(£8,286k)

1.3 The impact of the above represents a forecast underspend of (£3,139k). Cabinet is asked to approve a transfer of £2,000k into invest to save reserve, therefore, reducing the overall forecast underspend to (£1,139k).

2. Key Areas Contributing to Position

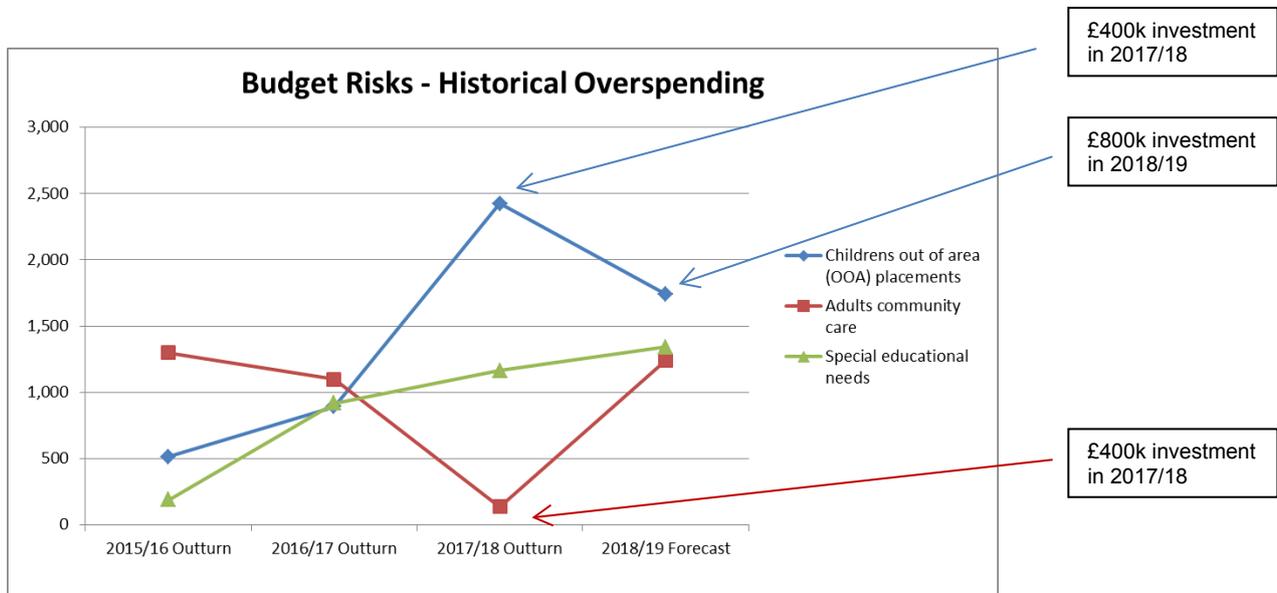
2.1 The following section highlights the key areas that contribute to the overall Council position:

- (i) on-going budget pressures on a small number of Council activities;
- (ii) forecast delivery of 2018/19 savings (and previous years) to date;
- (iii) other key emerging risks/ opportunities.

(i) On-going budget pressures

2.2 As highlighted within the overall dashboard (Appendix 1) there are a very small number of areas which contribute over £5million to projected service area overspends. These are not 'new' issues but those that continue to increase as demand for these services grow. The following is a graphical representation of level of overspends that these areas have reported since 2015/16.

2.3 The key message here is that despite annual investment into these areas, with the exception of children's out of area placements, demand and therefore costs have continued to grow beyond the level of investment.



2.4 The level of forecast overspending within service areas has significant consequences for the Council's work on its medium term financial projections (MTFP) and planning. In the context of pressure on Council's funding levels, the increased demand and cost is a significant pressure on future year's budgets. Therefore, managing demand and reducing costs in service provision are key priorities in terms of financial management, though the challenge of managing 'demand' in these areas are clearly significant and difficult.

(ii) Delivery of medium term revenue savings:

2.5 Page 2 of the overall dashboard (Appendix 1), '2018/19 forecast delivery of savings', shows good performance on achievement of savings with 94% of total savings forecasted for full delivery. The balance of almost £475k remains significant in financial terms though. An assessment of undeliverable savings has informed the 2019/20 budget process and officers continue to deliver these residual agreed savings still outstanding.

(iii) Other emerging risks/ opportunities

2.6 Other emerging risks which have arisen due to increased demand during this year's monitoring are shown within Appendix 1 – 'other significant variances'.

3. Schools

3.1 The 'Schools' section of the overall dashboard (Appendix 1) outlines the sectors that are forecasting negative balances at the end of the year and the trajectory of reserve movements over the last two years.

3.2 Forecast school balances as at 31st March 2019 highlights that most schools will have much reduced reserves at that time due to forecasted net overspending in the current year of £2,135k. Recent announcements from Welsh Government on additional funding for schools in 2018/19 should reduce this level of overspending and will be updated when more details are known. School reserves are still likely to reduce in 2018/19 and schools will need to take appropriate action in 2019/20 to reduce spending as overspending their available funding at current levels cannot be sustained.

4. Use of reserves

- 4.1 Appendix 5 illustrates the planned movements in reserves throughout the year. Cabinet should note the opening balance as at 31st March 2018, forecasted planned transfers in/ (out) of reserves in 2018/19 and the forecast balance as at 31st March 2019. Current projections suggest that 9% of the Councils reserve will be used by the end of the financial year which is in line with planned and expected use. The general fund reserve is at the minimum level required (£6.5m) representing 2% of the overall net budget.

5. Timetable

Ongoing

6. Risks

Risk	Impact of Risk if it occurs* (H/M/L)	Probability of risk occurring (H/M/L)	What is the Council doing or what has it done to avoid the risk or reduce its effect	Who is responsible for dealing with the risk?
Risk of overspending	H	M	Regular forecasting and strong financial management Revenue budget contingency	
Poor forecasting	M	M	Better forecasting in non-service areas where large variances occurred in 16/17 Review and refinement in service areas of risk based predictive models CX/HoF setting out clear expectations	AHoF SFBP's and budget managers CX / HoF

* Taking account of proposed mitigation measures

Links to Council Policies and Priorities

Strong financial management underpins services and medium term financial planning.

Options Available and considered

In terms of the financial position and financial management, there are no options – service areas do need to bring about improvements in their financial management and work with finance support teams to deal with base budget issues via a mixture of management action to manage issues and/or re-allocate budgets as appropriate.

Preferred Option and Why

Given that there may be potential for service area overspending to worsen, Cabinet is asked to note the current position and the risks of this changing and decide what corrective action is to be taken to reduce the forecast overspend in the 4 main overspending areas as they have significant impact on the in-year financial management position as well as future year budget.

Comments of Chief Financial Officer

The current forecast points towards significant pressure on a small number of service budgets and the under-spend comes mainly from one-off sources, with the inherent risks that come with this given that these cannot be guaranteed for the future, at current levels at least.

On-going demand in People services and associated costs are key considerations in the Councils future budget work to ensure budgets set are robust and deliverable. A number of initiatives to manage demand and look at better/cheaper service provisions in these areas are progressing well and will help reduce the pressures here.

Given the on-going pressure on services, it is recommended that £2,000k of the underspend is transferred into the invest to save reserve. Any use of the remaining underspend by Cabinet can only be for one-off expenditure.

Comments of Monitoring Officer

There are no specific legal issues arising from the Report, at this stage.

Comments of Head of People and Business Change

The report on the revenue monitor does not show any specific staffing issues, although clearly issues will arise if robust monitoring and management of budgets does not take place.

The report notes that any future reductions in funding will need to reflect and be consistent with the sustainable development principle's five ways of working in the Wellbeing of Future Generation (Wales) Act 2015.

Comments of Cabinet Member

The current financial position is concerning and we need all Cabinet Members with Heads of Service to bring forward actions to address.

Local issues

N/A

Scrutiny Committees

N/A

Equalities Impact Assessment and the Equalities Act 2010

N/A

Children and Families (Wales) Measure

N/A

Wellbeing of Future Generations (Wales) Act 2015

This update is against a backdrop of prolonged pressure on public services as a combination of reduced income, rising demands on services, increased expectations, compliance with new legislation and the increasing costs of running services which has seen the delivery of significant budget savings over the last five years. Any future reductions in funding will need to reflect and be consistent with the five principles underpinning the Wellbeing of Future Generation (Wales) Act 2015.

Consultation

N/A

Background Papers

Dated: